Lekwa Local Municipality
(Registration number MP305)
Audited Annual Financial Statements
for the year ended 30 June 2019

Lekwa Local Municipality
(Registration number MP305)
Audited Annual Financial Statements for the year ended 30 June 2019

General Information

Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community
Mayoral Committee	
Executive Mayor	Cllr. LBR Dhlamini
Speaker	Cllr. HM Khota
Chief Whip	Cllr. ML Molaba
Member of Mayoral Committee: Technical Services and Planning and Development	Cllr. BP Mollo
Member of Mayoral Committee: Corporate Sevices and Community Services and Safety	Cllr. VT Malinga (Resigned)
Councillors	Cllr ENK Shabangu Cllr F Sarang Cllr JL Jansen Van Rensburg Cllr NL Nkosi Cllr MS Khumalo Cllr SM Zacarias Cllr JR De Ville Cllr MS Mngomezulu Cllr MB Mosikedi Cllr XM Tshabalala Cllr PJ Dhlamini Cllr B Ndlebe Cllr JQ Khumalo Cllr RS Solontsi Cllr TJ Kambule Cllr MM Sibanyoni Cllr LP Selepe Cllr FE Mhlapo Cllr VM Mahlangu Cllr NS Selepe Cllr JW Ngubeni Cllr SS TP Motloung Cllr PC Mahlaba Cllr SJ Nkosi Cllr SM Ngwenya Cllr SA Silonsini
Grading of local authority	Grade 4
Accounting Officer	Mrs GP Mhlongo-Ntshangase
Chief Finance Officer (CFO)	Mr K Duba (Acting Chief Financial Officer)
Registered office	C/O Mbonani Mayisela and Dr Beyers Naude Street Standerton 2430
Business address	PO Box 66 Standerton

General Information

Bankers	First National Bank Nedbank
Auditors	Auditor General South Africa

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Index

The reports and statements set out below comprise the audited annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers (Previously IMFO)
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the audited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the audited annual financial statements and was given unrestricted access to all financial records and related data.

The audited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The audited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the audited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The external auditors are responsible for independently reviewing and reporting on the municipality's audited annual financial statements. The audited annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The audited annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the Accounting officer on 30 August 2019 and were signed on its behalf by:

GP Mhlongo-Ntshangase
Municipal Manager

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interests of the local community and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached audited annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 227 027 191 (2018: deficit R 361 231 277).

2. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R (338 492 570) and that the municipality's current liabilities exceed its current assets by R (933 780 544).

The audited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The Municipality has been unable to meet all its current obligations by not paying service providers within 30 days on receipts of invoice in accordance with Section 65 of the Municipal Finance Management Act No 56 of 2003. Interest incurred from paying of suppliers late have been disclosed as fruitless and wasteful expenditure in this financial statement. The Municipality has incurred a net loss of R227 027 191,00 on the Statement of Financial Performance during the reporting period ended 30 June 2019. The net loss takes cognisance of other non-cash items which include depreciation and debt impairment. Liquidity management objectives have not been met as the cash coverage ratio was less than a month which is below the norm of three months and current ratio was fragile as the current liabilities exceeded the current assets by R 970, 785, 296 with an outcome assessment of less than one. A material amount of receivables have been impaired due to noncollectability. Payments arrangement have been made with some of the creditors given the financial constraints of the Municipality.

The Municipality with the assistance of Cooperative Governance and Traditional Affairs have prepared an Integrated Municipal Support Plan (IMSP) which was tabled in Council. The Integrated Municipal Support Plan (IMSP), constitutes commitments made by various stakeholders and activities aimed at turning around the municipality.

The Municipality with the assistance of Cooperative Governance and Traditional Affairs and Provincial Treasury have drafted a financial recovery plan as part of the section 139 of the Municipal Finance Management Act of 2003.

The Municipality is currently implementing the financial recovery an all relevant oversight committees and stakeholder will be monitoring the implementation of the plan on regular basis.

The Municipality continues to aggressively implement the financial interventions and revenue collection strategies in order to improve its financial sustainability.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The Accounting Officer does not have any interest in contracts, either direct or indirect.

5. Accounting policies

The audited annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

Accounting Officer's Report

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The acccounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Audit Committee

The audit committe members for the year ended 30 June 2019 were as follows:

Mr F.T Ngcobo	Chairperson
Mr W.N Mgaga	Member
Mr T Gafane	Member

Internal audit

The municipality has a fully functional internal audit unit. This is in compliance with the Municipal Finance Management Act, 2003.

7. Bankers

First National Bank (from July 2018 to April 2019) and Nedbank (from May 2019 to June 2019) was used for daily operations as well as investing of grant funding.

8. Auditors

Auditor General South Africa will continue in office for the next financial period.

The audited annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the Accounting officer on 30 August 2019 and were signed:

GP Mhlongo-Ntshangase
Municipal Manager

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Vat receivable	6	45 170 848	53 992 411
Inventories	8	71 300 109	67 453 220
Receivables from exchange transactions	9&11	204 371 393	105 671 651
Receivables from non-exchange transactions	10&11	34 750 672	15 163 668
Cash and cash equivalents	12	12 444 370	27 138 372
		368 037 392	**269 419 322**
Non-Current Assets			
Investment property	3	1 522 935	1 597 225
Property, plant and equipment	4	1 125 561 466	1 121 261 503
Other financial assets	5	27 039 334	25 663 459
Receivables from exchange transactions	9	21 692 154	21 692 150
		1 175 815 889	**1 170 214 337**
Total Assets		**1 543 853 281**	**1 439 633 659**
Liabilities			
Current Liabilities			
Employee benefit obligation	7	4 315 392	3 469 841
Unspent conditional grants and receipts	13	6 734 563	22 301 113
Provisions	14	6 843 050	-
Payables from exchange transactions	15	1 281 780 522	933 450 170
Consumer deposits	16	2 144 409	2 735 069
		1 301 817 936	**961 956 193**
Non-Current Liabilities			
Employee benefit obligation	7	70 344 450	79 264 045
Provisions	14	510 183 458	510 183 458
		580 527 908	**589 447 503**
Total Liabilities		**1 882 345 844**	**1 551 403 696**
Net Assets		**(338 492 563)**	**(111 770 037)**
Accumulated surplus		(338 492 570)	(111 770 053)

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

* See Note 39

Statement of Financial Performance for year ended 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	393 540 425	343 444 107
Operational revenue	19	2 109 962	1 400 742
Interest received	20	55 347 676	41 926 264
Rental income		1 778 331	1 906 238
Total revenue from exchange transactions		**452 776 394**	**388 677 351**
Revenue from non-exchange transactions			
Property rates	21	69 846 380	64 045 601
Government grants & subsidies	22	179 461 658	131 652 887
Fines, Penalties and Forfeits	23	3 390 060	2 788 890
Legal Disputes		304 658	-
Total revenue from non-exchange transactions		**253 002 756**	**198 487 378**
Total revenue	17	**705 779 150**	**587 164 729**
Expenditure			
Employee related costs	24	188 019 936	198 804 643
Remuneration of councillors	25	11 362 166	11 768 408
Inventory Consumed	26	6 979 573	7 492 601
Depreciation and amortisation	27	78 308 078	75 625 316
Impairments	28	2 802 493	1 904 873
Finance costs	29	110 500 608	82 350 016
Lease rentals on operating lease	30	6 825 849	19 224 513
Debt Impairment	31	42 240 017	90 957 067
Bulk purchases	32	384 229 439	352 301 511
Contracted services	33	54 360 408	64 952 651
Loss on disposal of assets		-	227 040
Inventories losses/write-downs		-	4 733 173
Operational costs	34	46 947 406	38 054 194
Total expenditure		**932 575 973**	**948 396 006**
Deficit for the year		**(226 796 823)**	**(361 231 277)**

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

* See Note 39

Statement of Changes in Net Assets for the year ended 30 June 2019

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2017	**249 461 224**	**249 461 224**
Changes in net assets		
Surplus for the year	(361 231 277)	(361 231 277)
Total changes	(361 231 277)	(361 231 277)
Opening balance as previously reported	(111 098 718)	(111 098 718)
Adjustments		
Prior year adjustments	(597 029)	(597 029)
Balance at 01 July 2018 as restated* Note 39	**(111 695 747)**	**(111 695 747)**
Changes in net assets		
Surplus for the year	(226 796 823)	(226 796 823)
Total changes	(226 796 823)	(226 796 823)
Balance at 30 June 2019	**(338 492 570)**	**(338 492 570)**
Note(s)		

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

* See Note 39

Cash Flow Statement for the year ended 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Property rates		57 015 375	66 834 491
Sale of goods and services		256 488 959	277 930 322
Grants		163 895 108	156 742 888
Interest income		55 347 676	41 926 264
		532 747 118	543 433 965
Payments			
Employee costs		(203 596 587)	(211 861 608)
Suppliers		(149 888 012)	(187 187 516)
Finance costs		(110 500 608)	(82 350 016)
		(463 985 207)	(481 399 140)
Net cash flows from operating activities	36	**68 761 911**	**62 034 825**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(82 080 038)	(34 362 681)
Proceeds from sale of property, plant and equipment	4	-	(227 040)
Proceeds from sale of financial assets		(1 375 875)	(1 536 078)
Net cash flows from investing activities		**(83 455 913)**	**(36 125 799)**
Net increase/(decrease) in cash and cash equivalents		**(14 694 002)**	**25 909 026**
Cash and cash equivalents at the beginning of the year		27 138 372	1 229 343
Cash and cash equivalents at the end of the year	12	**12 444 370**	**27 138 369**

* See Note 39

Statement of Comparison of Budget and Actual Amounts.

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	517 979 000	(94 024 307)	**423 954 693**	393 540 425	**(30 414 268)**	The Municipality envisaged an increase in revenue as a result of installation of smart meters and correction of service accounts
Rental income	2 000 000	(162 004)	**1 837 996**	1 778 331	**(59 665)**	The budget was understated as the Municipality did not want to inflate the revenue projection as it will influence the expenditure projection adversly
Operational revenue	55 912 000	(29 143 008)	**26 768 992**	2 109 962	**(24 659 030)**	Provision was made for VAT recovery as part of the additional revenue to be recouped by the Municipality as well as disposal of land which didn't follow thorugh.
Interest received - investment	48 971 000	-	**48 971 000**	55 347 676	**6 376 676**	There was a unspent grant of R22 000 000 that had earned interest.
Total revenue from exchange transactions	**624 862 000**	**(123 329 319)**	**501 532 681**	**452 776 394**	**(48 756 287)**	

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Statement of Comparison of Budget and Actual Amounts.

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	80 520 000	(3 624 012)	**76 895 988**	69 846 380	**(7 049 608)**	The Municipality envisaged implementing new SV however there was a significant decline in the valuation roll influenced by the decline in the markert performance
Transfer revenue						
Government grants & subsidies	111 527 700	74 004	**111 601 704**	179 461 658	**67 859 954**	The grants includes only revenue realised from operations and does not include grants relating to capital expenditure which the conditions have been met and revenue has been recognised
Fines, Penalties and Forfeits	350 000	2 471 012	**2 821 012**	3 390 060	**569 048**	The increase was as a result of the Municipality purchasing of a system (roadblock trailer) that assist in the collection of outstanding fines
Legal disputes	-	-	-	304 658	**304 658**	
Total revenue from non-exchange transactions	**192 397 700**	**(1 078 996)**	**191 318 704**	**253 002 756**	**61 684 052**	
Total revenue	**817 259 700**	**(124 408 315)**	**692 851 385**	**705 779 150**	**12 927 765**	

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Lekwa Local Municipality

(Registration number MP305)
Audited Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts.

Budget on Accrual Basis Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Expenditure						
Employee costs	(182 749 100)	(26 288 396)	**(209 037 496)**	(188 019 936)	**21 017 560**	There was not enough funds to fill budgeted posts
Remuneration of councillors	(12 627 000)	-	**(12 627 000)**	(11 362 166)	**1 264 834**	There was no significance increase in the council remuneration in terms of the Public Office Bears Act
Administration	-	-	-	(6 979 573)	**(6 979 573)**	
Depreciation and amortisation	(94 027 000)	-	**(94 027 000)**	(78 308 078)	**15 718 922**	The difference was due to changes on estimates and prior period errors.
Impairment loss/ Reversal of impairments	-	-	-	(2 802 493)	**(2 802 493)**	Municipality didn't budget for impairment
Finance costs	-	(106 587 672)	**(106 587 672)**	(110 500 608)	**(3 912 936)**	There was a significance in the amount owed to Eskom as a result of the Municipality having cash flow challenges
Lease rentals on operating lease	-	-	-	(6 825 849)	**(6 825 849)**	This was budgeted included in contracted services
Debt Impairment	(110 159 231)	(32 735 182)	**(142 894 413)**	(42 240 017)	**100 654 396**	The payment rate of consumers was not as anticipated during the bugeting process

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Statement of Comparison of Budget and Actual Amounts.

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Bulk purchases	(367 958 425)	(64 179 270)	**(432 137 695)**	(384 229 439)	**47 908 256**	During the budgeting there was an antiipation that the disputed Water and sanitation billing will be resolved and redue the bulk purchases water billings.
Contracted Services	(22 117 000)	(31 522 884)	**(53 639 884)**	(54 360 408)	**(720 524)**	Variance less than 5%
Operational cost	(74 619 033)	(41 469 461)	**(116 088 494)**	(46 947 406)	**69 141 088**	The operational cost increased due to the increase in routine operations as a result of savings in the cost of contracted services Operating lease rentals included in the contracted services during budgeting
Total expenditure	**(864 256 789)**	**(302 782 865)**	**(1 167 039 654)**	**(932 575 973)**	**234 463 681**	
Deficit before taxation	**(46 997 089)**	**(427 191 180)**	**(474 188 269)**	**(226 796 823)**	**247 391 446**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(46 997 089)**	**(427 191 180)**	**(474 188 269)**	**(226 796 823)**	**247 391 446**	

Reconciliation

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Lekwa Local Municipality
(Registration number MP305)
Audited Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts.

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Statement of Financial Position						
Assets						
Current Assets						
Inventories	72 034 176	-	**72 034 176**	71 300 109	**(734 067)**	Variance less than 5%
Receivables from exchange transactions	756 269 096	-	**756 269 096**	208 483 279	**(547 785 817)**	The amount indicated on the budget does not take into consideration of impairments of debtors.
Cash and cash equivalents	43 308 327	-	**43 308 327**	12 444 370	**(30 863 957)**	In current year there is an increased unspent grants. These grants are cash backed
	871 611 599	-	871 611 599	292 227 758	(579 383 841)	
Non-Current Assets						
Investment property	1 866 690	-	**1 866 690**	1 522 935	**(343 755)**	There was an asset that exceeded its useful life hence depreciation has declined.
Property, plant and equipment	1 123 638 028	-	**1 123 638 028**	1 125 561 466	**1 923 438**	Variance less than 5%
Other financial assets	24 122 985	-	**24 122 985**	27 039 334	**2 916 349**	The municipality didn't reclassify other receivables which has been due for more that 12 months to non-current assets.
	1 149 627 703	-	1 149 627 703	1 154 123 735	4 496 032	
Total Assets	2 021 239 302	-	2 021 239 302	1 446 351 493	(574 887 809)	

Statement of Comparison of Budget and Actual Amounts.

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Liabilities						
Current Liabilities						
Payables from exchange transactions	1 723 927 154	-	**1 723 927 154**	1 281 780 522	**(442 146 632)**	Due to inadequate cash flows, payables has been increasing. The largest amount owing is to Eskom
Consumer deposits	2 755 825	-	**2 755 825**	2 144 409	**(611 416)**	There has been a spike in houses that has been disposed off hence the the reduction in deposit held
Employee benefit obligation	-	-	-	4 315 392	**4 315 392**	The Municipality didn't split the the current portion of employee benefit obligation and landfill site provision in budgeting
Unspent conditional grants and receipts	-	-	-	6 734 563	**6 734 563**	The Municipality anticipated to spend all conditional grants at the end of the financial period
Provisions	2 924 493	-	**2 924 493**	6 843 050	**3 918 557**	Municipality didn't split the the current portion of employee benefit obligation and landfill site provision in budgeting
	1 729 607 472	**-**	**1 729 607 472**	**1 301 817 936**	**(427 789 536)**	

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Statement of Comparison of Budget and Actual Amounts.

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanations
Non-Current Liabilities						
Employee benefit obligation	-	-	-	70 344 450	**70 344 450**	The Municipality didn't split the the current portion of employee benefit obligation and landfill site provision in budgeting
Provisions	506 530 247	-	**506 530 247**	510 183 458	**3 653 211**	Provisions have increased due to increased interest charges, for landfill sites due to continued non rehabilitation of sites which have reached their useful life
	506 530 247	-	**506 530 247**	**580 527 908**	**73 997 661**	
Total Liabilities	**2 236 137 719**	-	**2 236 137 719**	**1 882 345 844**	**(353 791 875)**	
Net Assets	**(214 898 417)**	-	**(214 898 417)**	**(435 994 351)**	**(221 095 934)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	-	-	-	(338 492 567)	**(338 492 567)**	

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Accounting Policies

1. Presentation of Audited Annual Financial Statements

The audited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These audited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these audited annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These audited annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These audited annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the audited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the audited annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

1.5 Investment property (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.
Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

	Useful life
Property - Land	Indefinite
Property - Buildings	50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potentiai are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.6 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Plant and machinery	Straight line	2 - 15 years
Furniture and fixtures	Straight line	2 -7 years
Motor vehicles	Straight line	3 - 15 years
Office equipment	Straight line	2 - 10 years
IT equipment	Straight line	2 - 5 years
Computer software	Straight line	1 -3 years
Infrastructure	Straight line	1 - 65 years
Community	Straight line	2 - 30 years
Workshop equipment	Straight line	5 - 7 years
Specialised vehicles	Straight line	10 - 20 years

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

Accounting Policies

1.6 Property, plant and equipment (continued)

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintenance property, plant and equipment in the notes to the financial statements.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

1.7 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

1.7 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Trade receivables from Exchange transactions	Financial asset measured at amortised cost
Trade receivables from Non- Exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Vat Receivables	Financial asset measured at amortised cost
Cash and Cash equivalence	Financial asset measured at fair value
Other financial assets	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from Exchange transactions	Financial liability measured at amortised cost
Consumer Deposits	Financial liability measured at amortised cost
VAT Payable	Financial liability measured at amortised cost
Unspent Conditional Grants	Financial liability measured at amortised cost
Employee benefit obligations	Financial liability measured at amortised cost
Provisions	Financial liability measured at fair value

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Accounting Policies

1.7 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Accounting Policies

1.7 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.7 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.7 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the municipality directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.8 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

1.8 Statutory receivables (continued)

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

1.8 Statutory receivables (continued)

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

1.10 Inventories (continued)

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

1.11 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the audited annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

1.12 Provisions and contingencies (continued)

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.13 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, .or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.16 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

1.18 Irregular expenditure (continued)

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The audited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.20 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Accounting Policies

1.20 Related parties (continued)

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its audited annual financial statements.

1.21 Value added tax

The Municipality is registered with the South African Revenue Services as a VAT vendor in accordance with section 15(2) of the Value Added Tax Act (No. 89 of 1991).
The Municipality accounts for Value Added Tax on the payment basis as per the VAT Act

Notes to the Annual Financial Statements for the year ended 30 June 2019

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand

3. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	3 714 477	(2 191 542)	1 522 935	3 714 477	(2 117 252)	1 597 225

Reconciliation of investment property - 2019

	Opening balance	Depreciation	Total
Investment property	1 597 225	(74 290)	1 522 935

Reconciliation of investment property - 2018

	Opening balance	Transfers	Depreciation	Total
Investment property	1 909 115	(227 040)	(84 850)	1 597 225

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

4. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	136 630 450	-	136 630 450	138 224 650	-	138 224 650
Buildings	9 451 151	(3 309 945)	6 141 206	9 451 151	(2 837 387)	6 613 764
Plant and machinery	671 094	(494 605)	176 489	709 192	(494 605)	214 587
Furniture and fixtures	9 670 068	(9 368 609)	301 459	9 726 813	(9 513 740)	213 073
Transport assets	74 891 211	(54 343 148)	20 548 063	54 235 282	(51 143 713)	3 091 569
IT equipment	7 265 065	(3 588 524)	3 676 541	4 269 672	(3 566 208)	703 464
Work in progress	186 671 567	-	186 671 567	127 323 954	-	127 323 954
Roads network	1 393 385 880	(961 996 062)	431 389 818	1 393 385 880	(906 655 888)	486 729 992
Community	33 597 157	(4 080 648)	29 516 509	33 529 755	(3 062 101)	30 467 654
Electricity network	317 253 046	(193 841 501)	123 411 545	317 253 046	(186 237 229)	131 015 817
Workshop equipment	3 009 543	(2 558 864)	450 679	3 009 543	(2 416 256)	593 287
Wastewater network	244 566 325	(120 210 197)	124 356 128	244 566 325	(114 672 952)	129 893 373
Water network	162 057 010	(99 841 181)	62 215 829	162 057 010	(95 917 381)	66 139 629
Other property, plant and equipment	425 408	(350 225)	75 183	425 408	(388 718)	36 690
Total	**2 579 544 975**	**(1 453 983 509)**	**1 125 561 466**	**2 498 167 681**	**(1 376 906 178)**	**1 121 261 603**

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Transfers	Change in estimate	Depreciation	Total
Land	138 224 650	-	(1 594 200)	-	-	136 630 450
Buildings	6 613 764	-	-	-	(472 558)	6 141 206
Plant and machinery	214 587	-	-	-	(38 098)	176 489
Furniture and fixtures	213 073	210 579	-	-	(122 193)	301 459
Transport assets	3 091 569	19 242 464	-	2 047 893	(3 833 863)	20 548 063
IT equipment	703 464	3 229 582	-	-	(256 505)	3 676 541
Work in progress	127 323 954	59 347 613	-	-	-	186 671 567
Roads network	486 729 992	-	-	-	(55 340 174)	431 389 818
Community	30 467 654	-	-	-	(951 145)	29 516 509
Electricity network	131 015 817	-	-	-	(7 604 272)	123 411 545
Workshop equipment	593 287	-	-	-	(142 608)	450 679
Wastewater network	129 893 373	-	-	-	(5 537 245)	124 356 128
Water network	66 139 629	-	-	-	(3 923 800)	62 215 829
Other property, plant and equipment	36 690	49 800	-	-	(11 307)	75 183
	1 121 261 503	**82 080 038**	**(1 594 200)**	**2 047 893**	**(78 233 768)**	**1 125 561 466**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Restatement of assets	Depreciation	Total
Land	141 194 150	-	(2 969 500)	-	138 224 650
Buildings	3 335 935	3 571 796	-	(293 967)	6 613 764
Plant and machinery	33 370	-	193 118	(11 901)	214 587
Furniture and fixtures	637 572	210 579	(429 555)	(205 523)	213 073
Transport assets	2 896 685	-	1 426 812	(1 231 928)	3 091 569
IT equipment	1 687 816	294 080	(792 322)	(486 110)	703 464
Work in progress	97 513 898	29 810 056	-	-	127 323 954
Roads network	542 070 167	-	-	(55 340 175)	486 729 992
Community	31 418 799	-	-	(951 145)	30 467 654
Electricity network	138 625 346	-	-	(7 609 529)	131 015 817
Workshop equipment	328 767	478 170	(98 945)	(112 705)	593 287
Wastewater network	133 089 011	-	2 023 463	(5 219 101)	129 893 373
Water network	70 067 820	-	-	(3 928 191)	66 139 629
Other property, plant and equipment	95 970	-	(24 390)	(34 890)	36 690
	1 162 995 306	34 362 681	(671 319)	(75 426 166)	1 121 261 503

Work Progres Progress

Work in progress	186 671 567	127 323 954

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Other financial assets

Residual interest at cost		
Eskom SOC Ltd The amount held is a deposit paid to Eskom. The deposit bears interest at a linked rate.	27 039 334	25 863 459

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

5. Other financial assets (continued)

Non-current assets		
At amortised cost	27 039 334	25 663 459

6. Vat receivable

Vat	45 170 848	53 992 411

The Municipality accounts for Value Added Tax on the payment basis.

7. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-post employement medical benefit plan	(62 545 794)	(73 156 346)
Present value of the defined benefit obligation-long service award	(12 114 048)	(9 577 540)
	(74 659 842)	**(82 733 886)**
Non-current liabilities	(70 344 450)	(79 264 045)
Current liabilities	(4 315 392)	(3 469 841)
	(74 659 842)	**(82 733 886)**

Net expense recognised in the statement of financial performance

Current service cost	4 173 565	4 136 811
Interest cost	7 710 710	7 538 481
Actuarial (gains) losses	(16 290 052)	(6 306 230)
Actual benefits vested	3 668 267	2 664 416
	(737 510)	**8 033 478**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Post employment Benefit Plan	(18 738 683)	(5 908 666)
Actuarial (gains) losses – Long Service Awards	2 448 631	(397 564)
	(16 290 052)	**(6 306 230)**

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2019	2018
Discount rates used	9,38 %	9,65 %
Proportion for eligible current non member employees joining the scheme by retirement	20,00 %	20,00 %
Health care cost inflation rate	6,85 %	7,44 %
Net discount rate - health care cost inflation	2,37 %	2,06 %
Maximum subsidy inflation rate	4,76 %	5,21 %
Net discount rate - maximum subsidy inflation	4,41 %	4,23 %
Continuation of membership at retirement	75,00 %	90,00 %
Proportion with a spouse dependant at retirement	60,00 %	90,00 %

Withdrawal from service (PEMA and LSA):

Age	Females	Males
20	9 %	9 %
30	6 %	6 %
40	5 %	5 %
50	3 %	- %
	23 %	20 %

Sensitivity Analysis on the Accrued Liability (R Millions) : PEMA

Assumptions	Change	In-service members	Continuation members	Total	% change
Central assumptions		34.719	28.827	62.546	
Health care inflation	+1%	38.580	29.820	68.400	9%
Health care inflation	-1%	30.043	25.981	56.024	-10%
Discount rate	+1%	28.993	25.570	54.563	-13%
Discount rate	-1%	42.114	30.484	72.598	16%
Post retirement mortality	-1 year	35.612	28.835	64.447	3%
Average retirement age	-1 year	37.583	27.827	65.410	+5%
Continuation of membership at retirement	-10%	27.609	27.827	55.436	-11%
		-	-	-	-

The post-employment mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.
The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 9% higher than that shown.

Sensitivity Analysis on the Accrued Liability (R Millions) : LSA

Assumptions	Change	Liability	% change
Central assumptions		12.114	
General earnings inflation rate	+1%	12.831	6%
General earnings inflations rate	-1%	11.460	-5%
Discount rate	+1%	11.431	-6%
Discount rate	-1%	12.876	6%
Average retirement age	- 2years	10.765	-11%
Average retirement age	+ 2years	13.227	9%
Withdrawal rate	-50%	13.622	+12%

PEMA liability reconciliation:

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

7. Employee benefit obligations (continued)

	30/06/2019	30/06/2018
Opening accured liability	70 156 346	70 642 830
Current service cost	3 354 016	3 341 135
Interest cost	6 976 147	6 860 023
Contributions (benefits paid)	(2 202 032)	(1 778 976)
Total annual expense	8 128 131	8 422 182
Actuarial loss/(gain)	(18 738 683)	(5 908 666)
Closing accured liabilty	62 545 794	73 156 346
	130 219 719	**154 734 874**

LSA liability reconciliation:

	30/06/2019	30/06/2018
Opening accured liability	9 577 540	8 591 282
Current service cost	819 549	795 676
Interest service cost	734 563	678 458
Benefits (vested)	(1 466 235)	(885 440)
Total annual expense	87 877	588 694
Acctuarial loss/(gain)	2 448 631	397 564
Closing accured liability	12 114 048	9 577 540
	24 315 973	**19 743 774**

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

8. Inventories

Consumable stores	3 967 236	1 793 310
Water for distribution	152 938	5 010
Land for sale - RDP	67 179 935	65 654 900
	71 300 109	**67 453 220**

9. Receivables from exchange transactions

Sundry Receivables	35 417 733	35 411 834
Consumer debtors - Electricity	57 371 005	33 680 120
Consumer debtors - Water	57 953 601	21 967 247
Consumer debtors - Sewerage	19 023 429	6 692 632
Consumer debtors - Refuse	13 653 492	4 540 966
Consumer debtors - Other	42 644 287	25 071 002
	226 063 547	**127 363 801**

Non-current assets	21 692 154	21 692 150
Current assets	204 371 393	105 671 651
	226 063 547	**127 363 801**

Trade and other receivables pledged as security

There are no Consumer Debtors pledged as security for overdraft facilities.

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

9. Receivables from exchange transactions (continued)

Fair value of trade and other receivables

Aging of Sundry Receivables through exchange transactions		
90+ days	41 830 448	37 398 513
Trade and other receivables	283 232 272	127 363 801

Trade and other receivables impaired

As of 30 June 2019, trade and other receivables of R (605,333,949) (2018: R (582,870,455) were impaired and provided for.

The amount of the provision was R (22 463 494) as of 30 June 2019 (2018: R (53 370 348)).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(582 870 455)	(529 500 107)
Provision for impairment	(22 463 494)	(53 370 348)
	(605 333 949)	**(582 870 455)**

10. Receivables from non-exchange transactions

Fines	3 183 302	1 003 022
Legal disputes	304 658	-
Consumer debtors - Rates	31 262 712	14 160 646
	34 750 672	**15 163 668**

Receivables from non-exchange transactions pledged as security

There are no Consumer Debtors pledged as security for overdraft facilities.

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	34 750 672	15 163 668

Receivables from non-exchange transactions impaired

The ageing of these loans is as follows:

Traffic fines impairment	(2 802 493)	(1 904 873)
Consumer debtors - Rates	(17 404 570)	(35 235 289)

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(146 460 227)	(109 320 065)
Provision for impairment	(20 207 063)	(37 140 162)
	(166 667 290)	**(146 460 227)**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 30).

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

11. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	184 166 163	149 659 527
Consumer debtors - Electricity	124 921 728	101 868 064
Consumer debtors - Water	227 522 798	171 726 891
Consumer debtors - Sewerage	101 910 998	78 475 375
Consumer debtors - Refuse	73 821 476	55 579 571
Consumer debtors - Other	267 802 763	267 172 521
	980 145 926	**824 481 949**
Less: Allowance for impairment		
Consumer debtors - Rates	(152 903 451)	(135 498 881)
Consumer debtors - Electricity	(67 550 723)	(68 187 944)
Consumer debtors - Water	(169 569 197)	(149 759 644)
Consumer debtors - Sewerage	(82 887 569)	(71 782 743)
Consumer debtors - Refuse	(60 167 984)	(51 038 605)
Consumer debtors - Other	(225 158 476)	(242 101 519)
	(758 237 400)	**(718 369 336)**
Net balance		
Consumer debtors - Rates	31 262 712	14 160 646
Consumer debtors - Electricity	57 371 005	33 680 120
Consumer debtors - Water	57 953 601	21 967 247
Consumer debtors - Sewerage	19 023 429	6 692 632
Consumer debtors - Refuse	13 653 492	4 540 966
Consumer debtors - Other	42 644 287	25 071 002
	221 908 526	**106 112 613**
Included in above is receivables from exchange transactions		
Consumer debtors - Electricity	57 371 005	33 680 121
Consumer debtors - Water	57 953 601	21 967 247
Consumer debtors - Sewerage	19 023 429	6 692 632
Consumer debtors - Refuse	13 653 492	4 540 966
Consumer debtors - Other	42 644 287	23 086 225
	190 645 814	**89 967 191**
Not included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	31 262 712	14 160 647
Net balance	**221 908 526**	**104 127 838**
Rates		
Current (0 -30 days)	5 450 820	4 519 062
31 - 60 days	3 500 516	1 548 227
61 - 90 days	3 167 203	2 822 883
91 + days	158 792 692	140 770 507
Allowance for impairment	(152 904 603)	(135 500 033)
	18 006 628	**14 160 646**

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

11. Consumer debtors disclosure (continued)

Electricity		
Current (0 -30 days)	16 564 023	17 254 050
31 - 60 days	5 919 889	4 583 326
61 - 90 days	3 804 390	3 108 998
91 + days	71 609 339	76 921 690
Allowance for impairment	(67 550 723)	(68 187 944)
	30 346 918	**33 680 120**

Water		
Current (0 -30 days)	6 113 376	5 003 769
31 - 60 days	4 966 670	3 846 397
61 - 90 days	4 981 302	3 452 660
91 + days	179 032 813	159 424 065
Allowance for impairments	(169 569 197)	(149 759 644)
	25 524 964	**21 967 247**

Sewerage		
Current (0 -30 days)	2 593 672	2 181 635
31 - 60 days	1 897 726	1 549 641
61 - 90 days	1 743 644	1 422 327
91 + days	85 994 575	73 321 772
Allowance for impairment	(82 887 569)	(71 782 743)
	9 342 048	**6 692 632**

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Refuse		
Current (0 -30 days)	1 787 541	1 425 819
31 - 60 days	1 290 374	1 086 423
61 - 90 days	1 240 995	1 012 735
91 + days	62 485 803	52 054 594
Allowance for impairment	(60 167 984)	(51 038 605)
	6 636 729	**4 540 966**

Consumer debtors - Other		
Current (0 -30 days)	4 668 096	5 142 769
31 - 60 days	4 497 392	4 931 517
61 - 90 days	4 518 201	4 504 288
91 + days	233 848 965	252 593 947
121 - 365 days	(225 158 476)	(242 101 519)
	22 374 178	**25 071 002**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(718 369 336)	(629 763 697)
Contributions to allowance	(9 869 213)	(88 605 639)
	(728 238 549)	**(718 369 336)**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

12. Cash and cash equivalents (continued)

	2019	2018
Cash on hand	6 344	6 344
Bank balances	2 359 676	1 159 515
Short-term deposits	10 078 350	25 972 513
	12 444 370	**27 138 372**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
Nedbank - Current Account - 1185919473	2 359 676	-	116 994	2 359 676	63 501	2 525 586
Nedbank - Call Account - 37881152087	10 077	918	405 724	10 077	918	405 724
Nedbank - Call Account - 37881152001	10 077	1 080 077	194 053	10 077	4 616 090	194 053
Nedbank - Call Account - 37881152028	1 084 709	516 035	520 079	1 084 709	516 035	520 079
Nedbank - Call Account - 37881152095	441 970	184 515	-	441 970	184 515	-
Nedbank - Call Account - 37881153059	3 022 890	19 368 278	-	3 022 890	19 368 278	-
Nedbank - Call Account - 37881152109	10 077	963 155	-	10 077	963 155	-
Nedbank - Call Account - 37881152079	241 114	91 839	-	241 114	91 839	-
Nedbank Account - 37881152036	2 687 302	47 451	45 643	2 687 302	47 451	45 643
Nedbank Account - 37881151994	47 187	-	-	47 187	-	-
First National Bank - 6202704030	-	1 159 515	-	-	1 159 515	-
Nedbank Account - 37881152060	1 343 354	-	-	1 343 354	-	-
First National Bank - 62055246922	20 844	-	-	20 844	-	-
First National Bank - 62177556598	25 685	-	-	25 685	-	-
First National Bank - 62510563035	1 010 000	-	-	1 010 000	-	-
First National Bank - 62734195276	17 114	-	-	17 114	-	-
First National Bank - 62734193676	20 864	-	-	20 864	-	-
First National Bank - 62734196216	56 148	-	-	56 148	-	-
First National Bank - 62734188388	11 140	-	-	11 140	-	-
First National Bank - 62734191612	17 798	-	-	17 798	-	-
First National Bank - 62027040740	41 389	-	-	41 389	-	-
Total	**12 479 415**	**23 411 783**	**1 282 493**	**12 479 415**	**27 011 297**	**3 691 085**

13. Unspent conditional grants and receipts

The municipality complied with the conditions attached to the grants received to the extend of revenue recognised. Unspent portions of conditional grants are cash backed.

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

13. Unspent conditional grants and receipts (continued)

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Water Services Infrastructure Grant	6 713 486	22 071 166
Energy Efficiency and Demand Side Management Grant	21 077	-
Intergrated National Electrification Programme	-	229 947
	6 734 563	**22 301 113**

Movement during the year		
Opening balance	22 301 113	-
Additions during the year	163 830 000	60 006 000
Income recognition during the year	(179 166 550)	(37 704 887)
Withheld due to Unspent	(230 000)	-
	6 734 563	**22 301 113**

See note for reconciliation of grants from National/Provincial Government.

14. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Councillors backpay provision	-	2 239 910	2 239 910
Environmental rehabilitation provision	55 381 458	4 603 140	59 984 598
Department of water and sanitation	454 765 804	-	454 765 804
Leave pay provision	36 196	-	36 196
	510 183 458	**6 843 050**	**517 026 508**

Reconciliation of provisions - 2018

	Opening Balance	Additions	Payments during the year	Change in discount factor	Total
Councillors backpay provision	323 524	-	(323 524)	-	-
Environmental rehabilitation provision	50 606 609	-	-	4 774 849	55 381 458
Department of water and sanitation	379 254 299	77 527 178	(2 015 673)	-	454 765 804
Leave payout - deceased	36 196	-	-	-	36 196
	430 220 628	**77 527 178**	**(2 339 197)**	**4 774 849**	**510 183 458**

Non-current liabilities	510 183 458	510 183 458
Current liabilities	6 843 050	-
	517 026 508	**510 183 458**

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

15. Payables from exchange transactions

Payments received in advanced - contract in process	12 428 375	8 497 611
Retentions and guarantees	9 673 367	7 666 166
Salaries accruals	35 314 794	38 301 819
Accrued leave pay	23 467 418	16 630 030
13th Cheque Provisions	4 547 713	4 547 713
Other Accruals	1 195 954 893	848 921 359
Income received in advance	-	2 824 198
Advance payments consumers	393 962	6 061 274
	1 281 780 522	**933 450 170**

Fair value of trade and other payables

Trade payables	1 281 816 718	933 450 170

16. Consumer deposits

Deposits held from consumer debtors	(887 151)	2 804 079
Electricity	3 037 814	(60 743)
Water	(6 254)	(8 267)
	2 144 409	**2 735 069**

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

17. Revenue

Service charges	393 540 425	343 444 107
Rental income	1 778 331	1 906 238
Operational revenue	2 109 962	1 400 742
Interest received - investment	55 347 676	41 926 264
Property rates	69 846 380	64 045 601
Government grants & subsidies	179 461 658	131 652 887
Fines, Penalties and Forfeits	3 390 060	2 788 890
Legal disputes	304 658	-
	705 779 150	**587 164 729**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	393 540 425	343 444 107
Rental income	1 778 331	1 906 238
Operational revenue	2 109 962	1 400 742
Interest received - investment	55 347 676	41 926 264
	452 776 394	**388 677 351**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	69 846 380	64 045 601
Transfer revenue		
Government grants & subsidies	179 461 658	131 652 887
Fines, Penalties and Forfeits	3 390 060	2 788 890
Legal disputes	304 658	-
	253 002 756	**198 487 378**

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

18. Service charges

Sale of electricity	261 809 161	245 666 198
Sale of water	77 372 977	58 903 670
Sewerage and sanitation charges	32 858 348	21 956 119
Refuse removal	21 499 939	16 918 120
	393 540 425	**343 444 107**

19. Operational revenue

Tender deposits received	62 608	38 141
Cementary fees	106 315	191 171
Building plan charges	93 215	89 507
Clearance certificates	168 183	85 053
Rezoning fees	672 121	86 267
Miscellaneous income	819 502	557 217
Connection and reconnection fees	208 965	353 386
Skills development levy fund	(20 947)	-
	2 109 962	**1 400 742**

20. Interest received

Interest revenue		
Bank	4 768 218	3 215 532
Interest charged on trade and other receivables	50 579 458	38 710 732
	55 347 676	**41 926 264**

The amount included in Investment revenue arising from exchange transactions amounted to R 50 430 021.

The amount included in Investment revenue arising from non-exchange transactions amounted to R 2 895 383.

21. Property rates

Rates received

Residential	69 846 380	64 045 601

Valuations

Residential	4 185 173 667	4 185 173 667
Commercial	878 813 294	878 813 294
State	707 587 260	707 587 260
Municipal	510 956 472	510 956 472
Small holdings and farms	3 892 621 550	3 892 621 550
	10 175 152 243	**10 175 152 243**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2020.

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

22. Government grants and subsidies

Operating grants		
Equitable share	107 321 108	93 948 000
Energy Efficiency and Demand Side Management Grant	5 978 923	-
Expanded publics works grants	1 000 000	1 013 000
MIG operating grant	1 331 111	-
	115 631 142	**94 961 000**
Capital grants		
Municipal Infrastructure Grant	26 702 889	19 293 000
Financial management grant	1 770 000	1 700 000
Water services infrastructure grant	35 357 627	7 928 834
Intergated national electricfication programme grant	-	7 770 053
	63 830 516	**36 691 887**
	179 461 658	**131 652 887**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	115 631 142	37 704 887
Unconditional grants received	54 091 386	93 948 000
	169 722 528	**131 652 887**

Water Services Infrastructure Grant

Balance unspent at beginning of year	22 071 166	30 000 000
Current-year receipts	20 000 000	-
Conditions met - transferred to revenue	(35 357 680)	(7 928 834)
	6 713 486	**22 071 166**

Conditions still to be met - remain liabilities (see note 13).

The Water Services Infrastructure grant is to provide specific capital finance for basic municipal water infrastructure micro enterprises and social institutions servicing poor communities..

Financial Management Grant

Current-year receipts	1 770 000	1 770 000
Conditions met - transferred to revenue	(1 770 000)	(1 770 000)
	-	-

The purpose of the Financial Management Grant (FMG) is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA.

Municipal Infrastructure Grant

Current-year receipts	28 034 000	19 293 000
Conditions met - transferred to revenue	(28 034 000)	(19 293 000)
	-	-

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

22. Government grants and subsidies (continued)

The Municipal Systems Improvement Grant (MSIG) is a conditional grant directed to selected Local and District municipalities. The purpose of the grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions effectively.

Expanded Public Works Grant

	2019	2018
Current-year receipts	1 000 000	1 013 000
Conditions met - transferred to revenue	(1 000 000)	(1 013 000)
	-	-

Incentive paid to public bodies to incentivise work creation. The incentive is paid per quantum of employment created for the Expanded Public Works Grant (EPWP) target group and can be measured in person-days of work or full time equivalent jobs.

Energy Efficient and Demand Side Management Grant

	2019	2018
Current-year receipts	6 000 000	-
Conditions met - transferred to revenue	(5 978 923)	-
	21 077	-

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Intergrated National Electrification Programme Grant

	2019	2018
Balance unspent at beginning of year	229 947	8 000 000
Conditions met - transferred to revenue	(229 947)	(7 770 053)
	-	**229 947**

The Department of Energy, Eskom and the South African Local Government Association briefed the committee on where the Integrated National Electrification Programme (INEP) stood currently, the challenges it faced as well as the challenges specific to municipalities.

23. Fines, Penalties and Forfeits

	2019	2018
Traffic Fines	3 390 060	2 788 890

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Figures in Rand	2019	2018

24. Employee related costs

Basic	109 733 137	110 482 339
Bonus	8 907 461	8 639 862
Medical aid - company contributions	10 060 461	9 419 273
UIF	831 871	917 707
Other payroll levies	6 469 485	6 824 155
Leave pay provision charge	7 214 718	1 800 810
Defined contribution plans	(8 074 044)	3 499 774
Pension	21 802 114	24 058 755
Travel, motor car, accommodation, subsistence and other allowances	5 998 544	8 103 382
Overtime payments	19 097 214	16 459 557
Long-service awards	791 086	733 132
Acting allowances	902 117	1 695 531
Housing benefits and allowances	82 644	86 076
Contribution provident fund	64 172	43 200
	183 880 980	**192 763 553**

Remuneration of Municipal Manager

Annual Remuneration	1 169 058	1 364 158
Allowances	144 000	89 000
Contributions to UIF, Medical and Pension Funds	14 747	27 398
	1 327 805	**1 480 556**

Remuneration of Chief Finance Officer

Annual Remuneration	125 168	513 959
Allowances	-	56 376
Contributions to UIF, Medical and Pension Funds	-	6 442
	125 168	**576 777**

Rumuneration of Executive Manager Corparate Services

Annual Remuneration	868 086	880 732
Contributions to UIF, Medical and Pension Funds	133 856	250 793
	1 001 942	**1 131 525**

Remuneration of Executive Manager Community Services & Safety

Annual Remuneration	861 860	811 636
Allowances	60 000	60 000
Contributions to UIF, Medical and Pension Funds	166 953	140 276
	1 088 813	**1 011 912**

Remuneration of Executive Manager Technical Services

Annual Remuneration	179 672	1 107 719
Car Allowance	6 065	-
Contributions to UIF, Medical and Pension Funds	523	61 110
	186 260	**1 168 829**

Remuneration of Executive Manager Development and Planning

Annual Remuneration	210 504	595 001

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

24. Employee related costs (continued)

Allowances	194 324	20 000
Contributions to UIF, Medical and Pension Funds	4 140	56 500
	408 968	**671 501**

25. Remuneration of councillors

Executive Mayor	766 712	870 104
Mayoral Committee Members	1 739 013	2 001 168
Speaker	509 394	712 144
Councillors	7 671 889	7 397 588
Councillors' pension contribution	675 158	787 255
Other payroll levies	-	149
	11 362 166	**11 768 408**

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

26. Inventory Consumed

Consumables	6 979 573	7 492 601

27. Depreciation and amortisation

Property, plant and equipment	78 233 788	75 540 466
Investment property	74 290	84 850
	78 308 078	**75 625 316**

28. Impairment of assets

Impairments		
Other receivables from non-exchange revenue	2 802 493	1 904 873

The main classes of assets affected by reversals of impairment losses are other receivables from non exchanges (Traffic fines and debtors)

29. Finance costs

Trade and other payables	105 897 468	77 575 167
Interest cost - LSA, PEMA and Landfill site provision	4 603 140	4 774 849
	110 500 608	**82 350 016**

30. Lease rentals on operating lease

Motor vehicles		
Contractual amounts	6 510 749	18 322 661
Equipment		
Contractual amounts	315 100	901 852
	6 825 849	**19 224 513**

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018
31. Debt impairment		
Contributions to debt impairment provision	39 869 216	88 605 640
Bad debts written off	2 370 801	2 351 427
	42 240 017	**90 957 067**
32. Bulk purchases		
Electricity - Eskom	310 371 620	284 271 053
Water	73 857 819	68 030 458
	384 229 439	**352 301 511**
33. Contracted services		
Outsourced Services		
Fire Services	47 730	28 256
Meter Management	1 726 233	3 202 215
Debt Collection	853 334	-
Security Services	19 223 210	15 116 198
Consultants and Professional Services		
Business and Advisory	6 836 168	23 140 534
Legal Cost	10 830 909	9 384 198
Contractors		
Maintenance of Buildings and Facilities	16 676	886 208
Maintenance of Equipment	14 826 148	13 195 042
	54 360 408	**64 952 651**

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

34. Operational cost

Advertising	2 483 034	2 499 538
Auditors remuneration	5 648 687	3 923 727
Bank charges	918 343	981 853
Bursaries	79 850	13 988
Commission paid	-	7 992 305
Communication	3 335 876	2 335 388
Conferences and seminars	61 114	17 279
Signage	63 998	114 271
Discount allowed	-	279 384
Entertainment	90 268	106 050
Fines and penalties	11 114 584	-
Fuel and oil	944 227	2 168 766
Hire	-	796 321
IT expenses	4 646 232	3 654 518
Insurance	3 935 171	1 601 820
Medical expenses	-	50 884
Motor vehicle expenses	238 655	179 480
Protective clothing	577 329	587 075
Remuneration to Ward	2 905 500	2 223 000
Skills development levy	1 620 462	1 668 396
Staff welfare	309	-
Subscriptions and membership fees	2 001 181	1 986 740
Title deed search fees	-	3 808
Training	6 678	4 439
Travel - local	3 886 364	3 879 814
Workmen's Compensation	2 389 544	985 350
	46 947 406	**38 054 194**

35. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Operating lease charges		
Motor vehicles		
• Contractual amounts	6 510 749	18 322 661
Equipment		
• Contractual amounts	315 100	901 852
	6 825 849	**19 224 513**

Loss on sale of property, plant and equipment	-	(227 040)
Impairment of other receivables from non-exchange transactions	2 802 493	1 904 873
Depreciation on property, plant and equipment	78 233 788	75 540 466
Depreciation on investment property	74 290	84 850
Employee costs	199 382 102	210 573 051

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

36. Cash generated from operations

	2019	2018
Deficit	(226 796 823)	(361 231 277)
Adjustments for:		
Depreciation and amortisation	78 308 078	75 625 316
Gain on sale of assets and liabilities	-	227 040
Impairment deficit	2 802 493	1 904 873
Debt impairment	42 240 017	90 957 067
Movements in retirement benefit assets and liabilities	(8 074 044)	3 499 774
Movements in provisions	6 843 050	79 962 830
Other non-cash items	(379 416)	-
Changes in working capital:		
Inventories	(3 846 889)	5 066 294
Receivables from exchange transactions	(98 699 746)	16 277 790
Consumer debtors	(42 240 017)	(90 957 067)
Other receivables from non-exchange transactions	(22 389 497)	12 789 065
Payables from exchange transactions	348 330 352	239 311 953
VAT	8 821 563	(33 630 936)
Unspent conditional grants and receipts	(15 566 550)	22 301 113
Consumer deposits	(590 660)	(69 010)
	68 761 911	**62 034 825**

37. Commitments

Authorised capital expenditure

	2019	2018
Already contracted for but not provided for		
• Property, plant and equipment	17 767 955	41 370 430
Total capital commitments		
Already contracted for but not provided for	17 767 955	41 370 430

Authorised operational expenditure

This committed capital expenditure relates to property and will be financed by revenue from conditional grants as in Division of Revenue Act.

Operating leases - as lessee (expense)

	2019	2018
Minimum lease payments due		
- within one year	117 864	642 236
- in second to fifth year inclusive	21 562	57 046
	139 426	**699 282**

Prior year amounts where discolsed incorrectly below is a reconciliation of the prior year disclosure error.

Prior year error explanations	
Within one year was	81 184 029
Within one year is	642 236
Correction of error	**80 541 793**
Within 2-5 years was	613 869
Within 2-5 years is	57 046
Correction of error	**556 823**

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

38. Related parties

Remuneration of management

Mayoral committee members

38. Related parties (continued)

2019

Name	Basic salary	Car Allowance	Cellphone Allowance	Contribution to Medical and Pension Funds	Other benefits received	Total
Executive Mayor - Cllr. LBR Dhlamini	542 111	214 868	44 400	121 488	7 049	929 916
Speaker - Cllr. HM Khota	449 028	171 894	44 400	80 047	5 956	751 325
Chief Whip - Cllr. ML Molaba	547 913	-	44 400	94 211	5 051	691 575
Technical Services and Development and Planning - Cllr. BP Mollo	403 065	161 151	44 400	95 722	5 349	709 687
Corporate Services and Community services and safety - Cllr. VT Malinga (Resigned)	388 374	150 407	41 440	65 824	4 891	650 936
	2 330 491	**698 320**	**219 040**	**457 292**	**28 296**	**3 733 439**

Audited
By
2019 -11- 3 0
Auditor General South Africa
Mpumalanga Business Unit

38. Related parties (continued)

2018

Name	Basic salary	Car Allowance	Cellphone Allowance	Contribution to medical and pension funds	Other benefits received	Total
Executive Mayor - Cllr. LBR Dhlamini	494 448	206 604	52 012	122 780	6 578	882 422
Speaker - Cllr. HM Khota	400 867	165 282	52 012	93 983	5 377	717 521
Chief Whip - Cllr. ML Molaba	526 682	-	46 332	92 491	4 889	670 394
Corporate Services and Community services and safety - Cllr. VT Malinga	393 193	154 953	46 332	69 729	5 007	669 214
Technical Services and Development and Planning - Cllr. BP Motlo	369 971	155 259	46 332	93 731	5 015	670 308
	2 185 161	682 098	243 020	472 714	26 866	3 609 859

Councillors/Mayoral committee members

38. Related parties (continued)

2019

Name	Basic salary	Car Allowance	Cellphone Allowance	Contribution to Medical and Pension Funds	Other benefits received	Total
Cllr ENK Shabangu	227 435	87 260	44 400	33 354	3 103	395 551
Cllr F Sarang	173 394	68 215	44 400	29 814	2 448	318 271
Cllr JL Jansen Van Rensburg	173 394	67 998	44 400	29 814	2 446	318 052
Cllr NL Nkosi	165 524	67 998	44 400	54 877	2 607	335 406
Cllr MS Khumalo	221 278	87 264	44 400	50 916	3 210	407 068
Cllr SM Zacarias	231 144	87 264	44 400	30 144	3 171	396 123
Cllr JR De Ville	173 394	67 998	44 400	29 814	2 446	318 052
Cllr MS Mngomezulu	173 394	67 998	44 400	29 814	2 446	318 052
Cllr MB Mosikedi	204 252	87 264	44 400	74 100	3 341	413 357
Cllr XM Tshabalala	173 394	67 998	44 400	29 814	2 446	318 052
Cllr PJ Dlamini	173 394	67 998	44 400	29 814	2 446	318 052
Cllr B Ndlebe	173 394	67 998	44 400	29 814	2 439	318 045
Cllr JQ Khumalo	222 522	87 264	44 400	38 262	3 013	395 461
Cllr RS Solontsi	163 291	67 998	44 400	58 071	2 616	336 376
Cllr Tj Kambule	173 394	67 998	44 400	29 814	2 446	318 052
Cllr MM Sibanyoni	173 394	67 998	44 400	29 814	2 446	318 052
Cllr LP Selepe	177 218	70 700	44 400	25 989	2 538	320 845
Cllr FE Mhlapo	230 128	87 264	44 400	41 442	3 204	406 438
Cllr VM Mahlangu	167 485	67 998	44 400	48 635	2 567	331 085
Cllr NS Selepe	173 394	67 998	44 400	29 814	2 446	318 052
Cllr JW Ngubeni	173 394	67 998	44 400	29 814	-	315 606
Cllr SS TP Motloung	11 764	4 533	2 960	2 448	171	21 876
Cllr PC Mahlaba	173 394	67 998	44 400	29 814	2 446	318 052
Cllr SJ Nkosi	209 092	16 999	44 400	44 643	2 485	317 619
Cllr SM Ngwenya	171 354	67 998	44 400	35 777	2 552	322 081
Cllr SA Silonsini	135 092	58 422	38 194	54 548	2 309	288 565
	4 618 307	**1 762 419**	**1 106 754**	**950 974**	**63 788**	**8 502 241**

38. Related parties (continued)

2018

Name	Basic salary	Car Allowance	Cellphone Allowance	Contribution to Medical and Pension funds	Other benefits received	Total
Cllr. AS Ngwenya	784	261	213	-	12	1 270
Cllr. B Ndlebe	170 110	67 500	46 124	30 375	2 429	316 538
Cllr. SB Sibeko	784	261	213	-	12	1 270
Cllr. ENK Shabangu	218 997	86 952	46 332	39 128	3 006	394 415
Cllr. FE Mhlapo	218 309	86 625	46 124	38 981	2 995	393 034
Cllr. JB Mothopeng	1 007	336	213	-	15	1 571
Cllr. JJ VAN Der Wath	130 600	51 954	35 602	23 134	1 878	243 168
Cllr.JL Jansen Van Rensburg	170 646	67 755	46 332	30 489	2 444	317 666
Cllr. JR De Ville	170 646	67 555	46 332	30 489	2 444	317 466
Cllr. JW Ngubeni	170 110	67 499	46 124	30 375	-	314 108
Cllr. LP Selepe	170 110	67 499	46 124	30 375	2 435	316 543
Cllr. MB Mosikedi	176 456	86 625	46 124	80 835	2 995	393 035
Cllr. MG Makhanye	784	261	213	-	12	1 270
Cllr. MM Sibanyoni	170 110	67 499	46 124	30 375	2 435	316 543
Cllr. MR Tshabalala	784	261	213	-	12	1 270
Cllr. MS Mngomezulu	170 110	67 500	46 124	30 375	2 435	316 544
Cllr.N Tshabalala	784	261	213	-	12	1 270
Cllr. NS Selepe	170 110	67 500	46 124	30 375	2 435	316 544
Cllr. PC Sikhakhane	784	261	213	-	12	1 270
Cllr. PT Schnetler	784	261	213	-	12	1 270
Cllr. S JQ Khumalo	218 312	86 622	46 124	38 981	2 995	393 034
Cllr. S MD Rakitla	784	261	213	-	12	1 270
Cllr. S MS Khumalo	199 391	86 952	46 332	58 734	3 006	394 415
Cllr. S MY Khumalo	784	261	213	-	12	1 270
Cllr. SS Gumede	784	261	213	-	12	1 270
Cllr. SS Mosia	1 007	336	213	-	15	1 571
Cllr. TJ Kambule	170 111	67 499	46 124	30 375	2 435	316 544
Cllr. VM Mahlangu	152 188	67 501	46 124	48 295	2 435	316 543
Cllr. VM Sigasa	12 564	3 209	3 737	-	189	19 699

38. Related parties (continued)

Cllr. BG Sekhonde	-	-	213	-	2	215
Cllr. F Sarang	170 646	67 755	46 332	-	-	284 733
Cllr. JP Masuku	784	261	213	-	12	1 270
Cllr. MM Mnisi	-	-	213	-	2	215
Cllr. NL Nkosi	146 782	67 755	46 332	54 354	2 444	317 667
Cllr. NZE Sitshoni	1 007	336	213	-	15	1 571
Cllr. PC Mahlaba	170 110	67 499	46 124	30 375	2 435	316 543
Cllr. PJ Dhlamini	170 110	67 499	46 124	30 375	2 435	316 543
Cllr. RV Solontsi	165 927	67 499	46 124	34 558	2 435	316 543
Cllr. SJ Nkosi	199 039	-	40 000	44 871	2 226	286 136
Cllr. SM Ngwenya	72 754	30 230	20 529	16 324	1 253	141 090
Cllr. SM Zacarias	218 997	86 952	46 332	39 128	3 006	394 415
Cllr. TA Khanyile	75 056	29 615	20 432	12 633	1 083	138 819
Cllr. XM Tshabalala	170 110	67 499	46 124	30 375	2 435	316 543
	4 430 056	**1 720 428**	**1 139 892**	**894 684**	**58 924**	**8 243 984**

39. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by mscoa reclassifications and prior period errors:

Statement of financial position

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

39. Prior-year adjustments (continued)

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Land	4	138 224 650	(2 969 500)	-	135 255 150
Plant and Machinery	4	21 469	193 118	-	214 587
Furniture and Fittings	4	642 628	(429 555)	-	213 073
Motor Vehicles	4	1 664 757	-	(1 664 757)	-
Transport Assets	4	-	1 426 812	1 664 757	3 091 569
IT equipment	4	1 495 786	(792 322)	-	703 464
Workshorp equipment	4	692 323	(98 945)	-	593 378
Waste Water network	4	127 869 910	2 023 463	-	129 893 373
Other PPE	4	61 080	(24 390)	-	36 690
Infrastructure	4	486 729 992	-	(486 729 992)	-
Roads network	4	-	-	486 729 992	486 729 992
Accumulated loss		111 098 718	597 029	-	111 695 747
		868 427 023	**-**	**-**	**868 427 023**

Statement of financial performance

2018

	Note	As previously reported	Re-classification	Restated
Revenue from exchange transactions	19	-	1 400 742	1 400 742
Other Income	19	1 400 742	(1 400 742)	-
Employee related costs	24	(204 170 845)	5 451 848	(198 718 997)
Inventory Consumed	26	-	(7 492 601)	(7 492 601)
Lease rentals on operating lease	30	(18 322 661)	(901 851)	(19 224 512)
Contracted services	33	(37 263 374)	(27 689 277)	(64 952 651)
General expenditure		(68 686 075)	68 686 075	-
Operational costs	34	-	(38 054 194)	(38 054 194)
		(327 042 213)	**-**	**(327 042 213)**

All reclassifications which where done was to align financial statements with MSCOA

Restatement of assets was due to restatement of carrying amount except waste water network of R2 023 463 which was brought in after assets verifications

Reclassification of Land for RDP houses from Property, Plant and Equipment to Inventory to the value of R2 969 500

40. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.
The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes.
Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
• Trade and other payables	1 262 702 378	-	-	-

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
• Trade and other payables	933 450 180	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2019	2018
Receivables from non-exchange transactions	6 317 031	15 163 668
Receivables from exchange transactions	208 483 279	105 671 651
Cash and cash equivalents	9 905 514	27 138 077
Non-current assets : Receivables form exchange transactions	6 317 031	21 692 150

Audited By 2019 -11- 30 Auditor General South Africa Mpumalanga Business Unit

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

40. Risk management (continued)

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

41. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R (338 492 570) and that the municipality's current liabilities exceed its current assets by R (933 780 544).
The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The Municipality has been unable to meet all its current obligations by not paying service providers within 30 days on receipts of invoice in accordance with Section 65 of the Municipal Finance Management Act No 56 of 2003. Interest incurred from paying of suppliers late have been disclosed as fruitless and wasteful expenditure in this financial statement.
The Municipality has incurred a net loss of R227 027 191,00 on the Statement of Financial Performance during the reporting period ended 30 June 2019. The net loss takes cognisance of other non-cash items which include depreciation and debt impairment. Liquidity management objectives have not been met as the cash coverage ratio was less than a month which is below the norm of three months and current ratio was fragile as the current liabilities exceeded the current assets by R 970, 785, 296 with an outcome assessment of less than one. A material amount of receivables have been impaired due to noncollectability. Payments arrangement have been made with some of the creditors given the financial constraints of the Municipality.

The Municipality with the assistance of Cooperative Governance and Traditional Affairs have prepared an Integrated Municipal Support Plan (IMSP) which was tabled in Council. The Integrated Municipal Support Plan (IMSP), constitutes commitments made by various stakeholders and activities aimed at turning around the municipality.

The Municipality with the assistance of Cooperative Governance and Traditional Affairs and Provincial Treasury have drafted a financial recovery plan as part of the section 139 of the Municipal Finance Management Act of 2003.

The Municipality is currently implementing the financial recovery an all relevant oversight committees and stakeholder will be monitoring the implementation of the plan on regular basis.

The Municipality continues to aggressively implement the financial interventions and revenue collection strategies in order to improve its financial sustainability.

42. Unauthorised expenditure

	2019	2018
Opening balance as previously reported	818 230 700	728 532 697
Unauthorised expenditure for the year	-	89 698 003
Opening balance as restated	**818 230 700**	**818 230 700**
Closing balance	**818 230 700**	**818 230 700**

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

43. Fruitless and wasteful expenditure

Opening balance as restated	-	-
Opening balance	210 536 843	132 901 507
Interest on Arrear Eskom accounts	108 610 533	73 975 747
Interest on Arrear, AGSA, SARS, Pension and Munsoft accounts	11 475 243	3 659 589
Closing balance	**330 622 619**	**210 536 843**

44. Irregular expenditure

Opening balance as restated	-	-
Opening balance	319 260 111	228 172 697
Other	8 016 266	4 932 885
Appointment of Financial Consultants	3 713 100	5 380 000
Supply chain management process not followed	3 805 924	1 143 525
Tender process committee members not appointed	2 842 077	29 871 066
Irregular expenditure identified in the current year relating to prior year	-	1 639 715
Appointed service providers	51 279 039	48 120 223
Closing balance	**388 916 517**	**319 260 111**

Figures in Rand	2019	2018

44. Irregular expenditure (continued)

Incidents/cases identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Supply chain management process not followed	No disciplinary steps or investigations was done regarding supply chain management processes not followed	3 805 924	1 143 525

Analysis of expenditure awaiting condonation per age classification

Current year	17 820 130	91 087 414
Prior years	319 260 111	228 172 697
	337 080 241	319 260 111

45. Additional disclosure in terms of Municipal Finance Management Act

Material losses

Electricity	111 837 480	86 843 749
Water	62 642 352	62 564 444
	174 479 832	149 408 193

Electricity losses for the current year amounted to 38% i.e R 111,837,480 (2018: 32% i.e. R 86,843,749). These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network, account for 10% .Non-technical losses, being theft, faults, billing errors etc., account for 22%. Attempts are currently being made to reduce these non-technical losses, data cleansing process will be initiated to address losses and the installation of smart meters.
Non revenue water i.e. non billed water amounted to 73% i.e. R62,642,352 (2018: 93% i.e. R62,564,444). 10% of these losses can be accounted for it in terms of the National Guidelines for non revenue water.83% of these losses cannot be accounted for mainly due to the non-metering of this water, being theft, faults, billing errors etc.. This problem is currently being addressed whereby additional meters are being installed and a data cleansing process will be initiated to address losses.

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

	2019	2018
Opening balance	3 755 449	1 616 140
Current year subscription / fee	6 372 936	4 436 201
Amount paid - current year	(6 118 019)	(2 296 892)
	4 010 366	**3 755 449**

PAYE and UIF

	2019	2018
Opening balance	27 989 585	16 144 987
Current year subscription / fee	32 758 321	34 247 945
Amount paid - current year	(13 827 942)	(22 403 347)
	46 919 964	**27 989 585**

Pension and Medical Aid Deductions

	2019	2018
Opening balance	8 572 851	118 130
Current year subscription / fee	55 810 332	52 025 659
Amount paid - current year	(29 299 205)	(43 570 938)
	35 083 978	**8 572 851**

VAT

	2019	2018
VAT receivable	45 170 848	53 992 408

VAT output payables and VAT input receivables are shown in note 6.

All VAT returns have been submitted by the due date throughout the year.

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand | 2019 | 2018

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. H.M. Khota (Acc. Holder: T.B. Nhleko)	-	78	78
Cllr. M.L. Molaba (Acc. Holder: T.B. Mbale)	37 946	1 815	39 761
Cllr B.P Mollo (Acc. Holder: B.P Mollo)	-	5 337	5 337
Cllr. V.T Malinga (Acc Holder:Malinga DJ)	5 412	4 063	9 475
Cllr. P.J. Dlamini(Acc Holder:Dhlamini E.V)	21 089	1 585	22 674
Cllr.T.J. Kambule (Acc Holder: T.J & M.Z.Kambule)	-	1 490	1 490
Cllr.S.M.Ngwenya (Acc Holder:Ngwenya DA)	-	1 811	1 811
Cllr.J.Q. Khumalo (Acc Holder: Khumalo & Radebe-Khumalo LM & QJ	-	163	163
Cllr.M.S. Khumalo (Acc Holder: Dhlamini NM)	17 016	2 862	19 878
Cllr.P.C. Mahlaba (Acc Holder: Mahlaba CS)	75 228	3 312	78 540
Cllr.V.M. Mahlangu (Acc Holder:Mahlangu JB)	-	2 412	2 412
Cllr.F.E. Nhlapo (Acc Holder: Nhlapo FE)	1 040	1 600	2 640
Cllr. M.B. Mosikedi(Acc Holder:Mosikedi MB)	-	14	14
Cllr.J.W. Ngubeni(Acc Holder:Zwana SJ)	-	31	31
Cllr.S.J. Nkosi(Acc Holder:Nkosi SN)	25 723	2 674	28 397
Cllr.F. Sarang (Sarang RA)	-	1 307	1 307
Cllr.N.S. Selepe (Acc Holder:Selepe NA)	138 038	6 455	144 493
Cllr.E.N.K. Shabangu (Acc Holder:Mzizi CK Pensioner)	30 789	2 812	33 601
Cllr.M.M. Sibanyoni (Mazibuko MA)	223	4	227
Cllr.R.V. Solontsi	11 506	1 921	13 427
Cllr.S.M. Zacarias(Acc Holder:Hlatshwayo SM)	-	805	805
Cllr .SS Dhlamini & NA Motaung	21 470	2 185	23 655
	385 480	**44 736**	**430 216**

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. M.L. Molaba (Acc. Holder: T.B. Mbale)	32 609	1 646	34 255
Cllr. V.T Malinga (Acc Holder:Malinga DJ	1 940	3 745	5 685
Cllr. P.J. Dhlamini(Acc Holder:Dlamini E.V)	16 634	1 402	18 036
Cllr.T.J. Kambule (Acc Holder: T.J & M.Z.Kambule)	-	1 293	1 293
Cllr.S.M.Ngwenya (Acc Holder:Ngwenya DA)	-	1 042	1 042
Cllr.J.Q. Khumalo (Acc Holder: Khumalo & Radebe-Khumalo LM & QJ)	-	902	902
Cllr.M.S. Khumalo (Acc Holder: Dlamini NM)	15 084	1 484	16 568
Cllr.P.C. Mahlaba (Acc Holder: Mahlaba CS)	65 613	3 052	68 665
Cllr.V.M. Mahlangu (Acc Holder:Mahlangu JB)	-	1 915	1 915
Cllr.F.E. Nhlapo (Acc Holder: Nhlapo FE)	-	1 289	1 289
Cllr.M.S. Mngomezulu (Acc Holder: Mngomezulu MS)	-	1 391	1 391
Cllr. M.B. Mosikedi(Acc Holder:Mosikedi MB)	-	386	386
Cllr.S.J. Nkosi(Acc Holder:Nkosi SN)	18 270	2 302	20 572
Cllr.L.P. Selepe (Acc Holder:Selepe FE)	-	3 083	3 083
Cllr.N.S. Selepe (Acc Holder:Selepe NA)	119 748	5 785	125 533
Cllr.E.N.K. Shabangu (Acc Holder:Mzizi CK Pensioner)	23 197	2 451	25 648
Cllr.M.M. Sibanyoni (Dhlamini SS & Motaung NA)	210	4	214
Cllr.R.V. Solontsi	6 179	1 632	7 811
Cllr.X.M. Tshabalala	-	1 534	1 534
Cllr.S.M. Zacarias(Acc Holder:Hlatshwayo SM)	-	481	481
	299 484	**36 819**	**336 303**

Figures in Rand	2019	2018

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

46. Contigences

Contigent Liabilities	2019	2018
Lekwa Local Municipality // SALGBC, J Mashika N.O & M.X Nkonyane Case: JR 1069/14	1 694 149	1 694 149
Lethusang Michael Mothobi// Moshoantle John Moboea	84 128	84 128
Hayes Matkovich Development (Pty) Ltd // Lekwa Local Municipality. Case no. 34401/12	65 756 794	65 756 794
Lekwa Municipality // SAWMU OBO Nkonde DE	204 000	204 000
Phumi Trading JV Masallo Zwane Construction//Lekwa	2 430 000	2 430 000
HC Schoeman HC // Lekwa	1 000 000	1 000 000
Disebo Lena Nkosi // Lekwa Municipality	194 254	194 254
Lekwa Municipality// Sky Village Properties CC	-	200 000 000
Sibonga Intuthuko Construction CC // Lekwa Municipality	148 952	148 952
Pheela Abraham Motaung & Others/ Lekwa Local Municipality	750 000	750 000
Telkom/ Lekwa Local Municipality	-	38 063
Telkom/ Lekwa Local Municipality	-	121 402
Thulane Karabo Shongwe/ Lekwa Local Municipality	1 750 000	1 750 000
Lekwa Local Municipality// El Gondor	17 558 033	17 558 033
Afri-Infra Group	747 246	-
Lourens Cornelius Nel// Lekwa Local Municipality(1017/2017)	-	19 200
Henry Jacobus Kruger //Lekwa Local Municipality	860 000	860 000
Eskom Holdings LTD/Lekwa Local Municipality(126/2019)	215 859 677	-
Ithemba Communications //Lekwa Local Municipality	3 743 383	-
	312 780 616	**292 608 975**

Contigent Assets	2019	2018
Silinda Mokoena // Lekwa Local Municipality	-	17 414 183

It was impracticable to disclose a brief description of the nature of contigencies disclosed above as some cases are sensitive.

In 2018 there was a disclosure error for department of water provision of R 287 520 917 which was shown as contigent liability.

Phumi Trading JV Masallo Zwane Construction//Lekwa was incorrectly disclosed as R 243 000 instead of R2 430 000.

Below is the reconciliation of the movements.

Reconciliations of Contigencies		
Audited 2018 financial statements		597 792 422
Correction of error- provision		(287 520 917)
Contigent asset		(17 414 183)
Correction error -Phumi		2 186 999
Correction of error - Bula Mosebetsi CC//Lekwa Local Municipality	-	(2 435 346)
		292 608 975

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Notes to the Annual Financial Statements for the year ended 30 June 2019

Figures in Rand	2019	2018

47. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the audited annual financial statements.

Order Number	Date	Supplier	Amount	Description	Reason
N/A - Direct Payment No order issued	4/23/2019	BARLOWS EQUIPMENT CO (ISANDO)	R 3 309 499	Procurement of Wheel-Loader	Urgent Procument as there were serious issues with the landillsite, which included the landfill site being closed, litigations agains the municipality as well as violation of the human rights

Audited
By
2019 -11- 30
Auditor General South Africa
Mpumalanga Business Unit